BUDGET 1999

Building today for a better tomorrow

Maintaining Sound Economic and Financial Management

February 1999

Canada

> *"The past year has been one of extraordinary economic uncertainty, a volatility that has demonstrated that no country today can shield itself fully from global turmoil. However, the past year has proven as well that the steps that Canada has taken to strengthen its finances and economy are paying off."*
>
> Finance Minister Paul Martin
> 1999 budget speech

A Consistent Strategy

The 1999 budget furthers the government's plan to build a strong economy and secure society. It is a strategy that continues action on three fronts:

- maintaining sound economic and financial management;
- investing in key economic and social priorities; and
- providing tax relief and improving tax fairness.

All three elements of this plan work together to improve Canadians' standard of living and quality of life.

- Deficit-free budgets and a falling debt burden help keep interest rates down, promote economic growth and better enable the government to provide tax relief and make key investments.
- Investments in health, access to knowledge and other key areas improve Canadians' ability to work and their quality of life.
- Tax relief encourages economic growth and job creation by increasing rewards to work, save and invest.

Seeing the Results

Like many countries, Canada has not been immune to economic pressures triggered by the Asian crisis, with some regions and sectors being hit hard. However, Canada still recorded a relatively strong economic performance in 1998 – a success made possible by sound underlying economic and financial policies.

Job creation

- Employment jumped by 453,000 jobs in 1998 – following the already impressive gain of 368,000 jobs in 1997.
- This was our best annual performance of the decade, and outpaces the rate of job creation in any other G-7 country. In fact, Canada outpaced the U.S. in terms of job growth through 1997 and 1998.
- This trend continued in January this year, with 87,000 new jobs created.
- Almost 40 per cent of the new jobs created in the last 12 months (202,000) went to Canada's youth, who posted their strongest yearly employment gain in over 25 years.
- The unemployment rate fell to 7.8 per cent in January 1999. While this is still too high, it represents the lowest jobless rate since 1990.

Government finances

- This year (1998-99) the government will again balance its books or better – the first time since 1951-52 that the government has been deficit-free for two consecutive years.
- The government is committed to further balanced budgets or better in both 1999-2000 and 2000-01. On only two occasions since Confederation has the government recorded balanced budgets for at least four consecutive years.
- By the accounting standards used in most other major industrialized countries, the government will post a financial surplus for the third consecutive year in 1998-99 – the only G-7 country to achieve this.

Interest rates

- Short-term interest rates, at around 4.7 per cent, are back down to the levels seen early last year, before the major impact of the "Asian flu."
- Long-term rates continued to drop over 1998, and are near historically low levels.

Economic prospects

- Due to the difficult global economic environment – including a drastic drop in commodity prices – private sector forecasters expect growth in Canada to slow to about 2 per cent this year, before picking up to 2.5 per cent in the year 2000.
- However, both the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) expect Canada still to be among the top performers among G-7 countries this year, and to lead the G-7 in the creation of jobs.

Falling Debt Burden

The best way to measure a country's debt burden is in relation to the size of the economy (gross domestic product – the GDP). The debt-to-GDP ratio measures what we owe as a country in relation to what we produce. The lower the ratio, the more manageable the debt.

- Last year, the debt-to-GDP ratio saw the largest single decline since 1956-57, from 70.3 per cent to 66.9 per cent.
- For the current fiscal year – 1998-99 – it should fall still further, to 65.3 per cent.
- By 2000-01, the debt ratio should be down to under 62 per cent.

This progress on debt reduction brings with it real bottom-line benefits. For example:

- In 1995-96, when the debt-to-GDP ratio was at its peak, 36 cents out of every federal revenue dollar went to paying interest on the debt.
- Last year, with the debt ratio dropping, the portion of each revenue dollar servicing the debt fell to 27 cents.

In other words, a falling debt burden is delivering new economic freedom for Canada – by freeing up resources to strengthen health care, to provide needed tax relief, to fight child poverty, to improve the environment, and to invest in a more productive economy through access to knowledge, research and innovation.

The Debt Repayment Plan

The government is committed to keeping the debt-to-GDP ratio on a downward path. A key element of this strategy is the Debt Repayment Plan.

- The government will continue to present two-year fiscal plans based on prudent economic planning assumptions.
- The fiscal plan will continue to include a Contingency Reserve as a buffer against unexpected financial pressures. The current plan contains a Contingency Reserve of $3 billion each year.
- When the Contingency Reserve is not needed – such as last year – it will go directly to paying down the public debt.

Investing in Canada

Taking care of the needs of Canadians does not end with taking care of the financial books. The 1999 budget continues to invest in key economic and social priorities, and to offer broad-based tax relief. These actions include:

- Provinces and territories will receive $11.5 billion in additional funding over the next five years specifically for health care. A further $1.4 billion will be invested over the remainder of this year and the next three years in activities including improving health information systems, and health-related research and innovation.
- Measures totalling more than $1.8 billion over the remainder of this year and the next three years will build on the Canadian Opportunities Strategy to foster research and innovation, and support employment.
- The budget provides $7.7 billion in tax relief for Canadians over the next three years. Combined with the tax measures in the 1998 budget – and the $800 million in lower employment insurance premium rates for 1999-2000 – tax relief will total $17.3 billion over three years.

Spending Control

Even with these new investments, program spending – all spending except interest payments on the debt – will continue to decline as a share of Canada's economy (GDP).

- In 1993-94, program spending equalled 16.6 per cent of GDP.
- For 1998-99, this spending is expected to be down to 12.6 per cent of GDP.
- By 2000-01, program spending should fall further to 12.0 per cent of GDP.

How can I get more information on the 1999 budget?

Information is available on the Internet at: http://www.fin.gc.ca/

You can also obtain copies of this brochure or other budget documents from:

Distribution Centre
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